HUD Launches Full Rental Assistance Demonstration

By Jennifer Hill, Staff Writer, Novogradac & Company LLP

s many as 15,000 public housing units lose their affordability restrictions each year. Meanwhile, recent estimates suggest that it would require nearly \$26 billion to make basic repairs to the nation's 1.2 million public housing units. Recognizing the challenges posed by the alarming number of hardwon affordable units lost as repair costs mount, the U.S. Department of Housing and Urban Development (HUD) decided to try a radically different approach to helping owners refinance public housing units. In July, HUD fully implemented the Rental Assistance Demonstration (RAD) program to test the conversion of public housing and certain other HUD funding streams to long-term Section 8 rental assistance.

"By doing nothing, we lose those units. That's the drive behind RAD," said Patrick Costigan, senior adviser at HUD, during a public forum in San Francisco Aug. 17. The forum was one of a series the department is hosting on the RAD program. By allowing properties to tap into previously inaccessible federal funding streams, HUD aims to maintain units' affordability and improve their physical condition.

Options under RAD

RAD offers public housing agencies (PHAs), owners of HUD-assisted housing and residents a commodity that can be hard to come by in most federal housing programs – choice. The voluntary program gives PHAs and other owners that historically have had few or no subsidy renewal options the opportunity to convert their public housing, Rent Supplement (Rent Supp), Rental Assistance Program (RAP) and Moderate Rehabilitation (Mod Rehab) funding streams to long-term, renewable Section 8 assistance. In turn, residents of converted properties can exercise RAD's choice-mobility option at their discretion and relocate to another property using tenant-based rental assistance.

The program consists of both competitive and non-competitive components that are outlined in the final program notice, PIH 2012-32. Under the first component, HUD will select 60,000 public housing and Mod Rehab

units on a competitive basis to be converted to either project-based vouchers (PBVs) or project-based rental assistance (PBRA) contracts. Applicants can choose which form of Section 8 assistance their properties will receive, and the assistance will be converted at the owners' current subsidy levels.

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Each PHA can apply to convert a maximum of 1,000 units to Section 8 assistance under RAD with the exception of the New York City Housing Agency, which has a 4,000-unit limit. "Some may want to convert their whole portfolio," Costigan said. He noted that applicants will compete within their own region to receive a Commitment to enter into a Housing Assistance Payments contract (CHAP), after which they will have six months to put together a development team and financing package. Applications for this first component are due Oct. 24.

Under RAD's second, noncompetitive component, owners of Rent Supp, RAP and Mod Rehab properties can convert their tenant protection vouchers (TPVs) to PBVs upon contract expiration or termination. Although this portion of RAD has no unit cap, conversions are subject to the availability of TPVs. HUD is accepting applications for the second component on an ongoing basis.

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More Options Equal More Opportunities

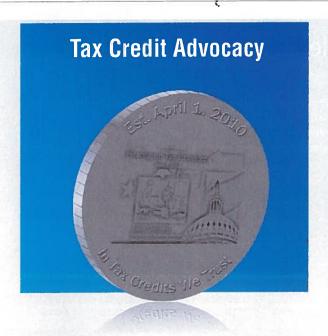
Properties that convert to Section 8 will be able to access private funding streams like low-income housing tax credits (LIHTCs) for the first time in public housing history. "We're going to need the private sector to help fill the [capital needs] backlog," Costigan said, noting that Congress appropriates only \$2 billion a year to PHAs for capital repairs. Tax credits, particularly 4 percent LIHTCs, he said, will be the most efficient way to bridge the rent gap between the Section 8 subsidy and unit operating costs. RAD was designed to work hand-in-hand with the Multifamily LIHTC Pilot program, which is testing an accelerated approval process for purchasing or refinancing LIHTC properties.

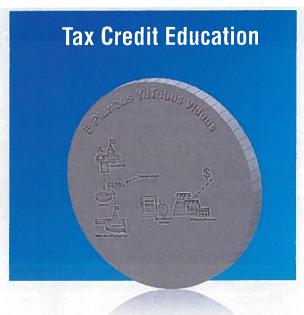
Another option, 9 percent credits, are "not realistic" for most PHAs, Costigan says, because it is not feasible to put together a competitive 9 percent LIHTC application within the program's short timeframe. However, without 9 percent credits the program may not be feasible in high-cost markets like San Francisco, Calif. "We agreed to do it with no money because about 41 percent of PHAs operate in markets where their current allocation is about the comparable market rent. We're aware that maybe 60 percent will struggle," Costigan said. HUD

requested \$200 million in federal appropriations to provide owners additional subsidy for conversions and to cover other program costs, but Congress didn't include any funding when it authorized the program.

Costigan urged public housing owners that are pursuing LIHTCs for the first time as part of a conversion financing package to seek professional guidance, noting that a development team's capacity and experience will be important factors when HUD ranks RAD applications. To help owners assemble their development teams, HUD and industry partners will host in-person and virtual forums to facilitate connections between public housing and private capital providers. National Equity Fund, Enterprise Community Investment and the Council for Large Public Housing Agencies launched a portal at www.RADcapitalmarketplace.com in August.

Talking over conversion options with a lender is a good first step for owners that are interested in participating in RAD, Costigan said. Agencies may also find HUD's Conversion Guide for Public Housing Agencies and the RAD Inventory Assessment Tool useful for identifying viable candidates for conversion. Both resources are available on HUD's RAD website at www.hud.gov/rad. \$\displaystyle{\text{conversion}}\$





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Both sides of the coin.



